

IN THE TENNESSEE REGULATORY AUTHORITY TN
NASHVILLE, TENNESSEE REGULATORY AUTH.

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IN RE:

) **DOCKET NO. 01-00704** OF THE
) EXECUTIVE SECRETARY

UNITED CITIES GAS COMPANY, a
Division of AMOS ENERGY
CORPORATION INCENTIVE PLAN
ACCOUNT (IPA) AUDIT

**AFFIDAVIT OF STEPHEN N. BROWN IN SUPPORT OF MOTION FOR
PARTIAL SUMMARY JUDGMENT**

I, Stephen N. Brown, being duly sworn, depose and say:

1. I am an economist in the Consumer Advocate and Protection Division, Office of the Attorney General and have held this position since 1995. In that capacity, I review utility filings and information relating to rates and rate changes and follow the economic conditions that affect the companies. Also, I assess and evaluate facts for the Consumer Advocate and Protection Division and other entities within the Office of the Attorney General.

2. From 1986 to 1995 I was employed by the Iowa Utilities Board as Chief of the Bureau of Energy Efficiency, Auditing and Research, and Utility Specialist and State Liaison Officer to the U.S. Nuclear Regulatory Commission. From 1984 to 1986, I worked for Houston Lighting & Power as Supervisor of Rate Design. From 1982 to 1984, I worked for Arizona Electric Power Cooperative as a Rate Analyst. From 1979 to 1982, I worked for Tri-State Generation and Transmission Association as Power Requirements Supervisor and Rate Specialist. From 1979 through 2002, my work spanned many issues including cost of service studies, rate design issues, telecommunications issues and matters related to the disposal of

nuclear waste.

3. I have an M.S. in Regulatory Economics from the University of Wyoming, an M.S. and Ph.D. from the University of Denver, and a B. A. from Colorado State University.

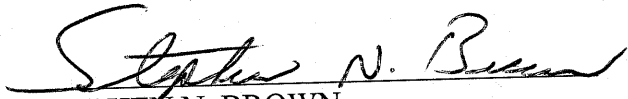
4. I am providing this affidavit in regard to the Tennessee Regulatory Authority's staff-audit of United Cities' compliance with the tariff that governs the company's Performance Based Rate making Mechanism Rider (PBR). The PBR allows the company to retain a portion of cost-reductions related to the purchase and delivery of natural gas to consumers rather than passing all such reductions on to consumers.

5. In particular, I am giving my opinion on United Cities' practice of calculating so-called cost reductions by resorting to a pipeline's maximum price to transport natural gas. The pipeline company's maximum price is listed in the company's tariffs filed with the Federal Energy Regulatory Commission. United Cities calculates its cost reduction by comparing its actual price of transport with the maximum price of transport and declaring the difference to be a "savings."

6. I respectfully submit that such "savings" fall outside the scope of the tariff which governs the PBR. The tariff of 1st Revised Sheet No. 45.1, the section titled "*Gas Procurement Incentive Mechanism*" directs United Cities to "compare its commodity cost of gas to the appropriate benchmark amount. The benchmark will be computed by multiplying . . . by an appropriate price index . . . a simple average of *Inside FERC Gas Market Report*, *Natural Gas Intelligence* and *NYMEX*..." This language directs United Cities to compare its actual prices to an average of prices derived from all three price indices, which in turn are accepted as representing all pipelines in the market. This procedure is different from and wholly unlike

United Cities' practice of comparing its actual price of transport to a single pipeline's maximum price of transport, a practice that does not involve a comparison of United Cities' actual price of transport to actual transportation prices achieved throughout the entire market.


7. Different pipelines have widely different maximum prices and each pipeline widely varies its maximum price according to the receipt and delivery points. Therefore, the maximum price is not a market index or a benchmark. Furthermore, the various maximum prices, taken by themselves, could not be cobbled together into a meaningful average since such an average would be likely to represent a few prices rather than most prices. For example, in the research I have done for this issue, I have found maximum prices that range from five cents to nearly \$10, a huge difference. This huge range explains why there is no market index of maximum pipeline prices.



STEPHEN N. BROWN
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Consumer Advocate and Protection Division
P.O. Box 20207
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(615) 741-3132

Dated: July 17, 2002

Sworn and subscribed before
me this 17 day of July, 2002

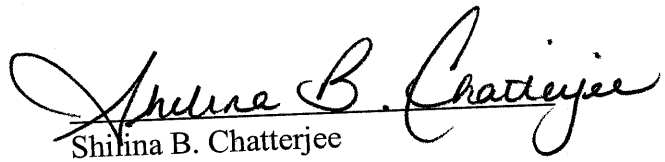


NOTARY PUBLIC

My commission expires: July 26, 2003

CERTIFICATE OF SERVICE

The undersigned hereby certifies that true and exact copies of the forgoing documents were delivered via facsimile to the parties of record in this action on this 17th day of July, 2002.


Shirina B. Chatterjee

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